



**COUNTY OF LOS ANGELES
DEPARTMENT OF AUDITOR-CONTROLLER**

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June 23, 2010

TO: Supervisor Gloria Molina, Chair
Supervisor Mark Ridley-Thomas
Supervisor Zev Yaroslavsky
Supervisor Don Knabe
Supervisor Michael D. Antonovich

FROM: Wendy L. Watanabe
Auditor-Controller

SUBJECT: **CHILDRENS HOSPITAL LOS ANGELES CONTRACT REVIEW – A
DEPARTMENT OF PUBLIC SOCIAL SERVICES CAL-LEARN
PROGRAM PROVIDER**

We have completed a program, fiscal and administrative contract review of Childrens Hospital Los Angeles (CHLA or Agency), a Department of Public Social Services (DPSS) Cal-Learn Program provider.

Background

DPSS contracts with CHLA, a non-profit, community-based organization, to assist CalWORKs participants that are teenage parents in completing their high school education. The contract services include recruiting and enrolling eligible participants, conducting Program orientations, handling case management, identifying and providing supportive services (i.e., child care, transportation, etc.) and assisting participants with enrolling and completing a high school education. The Agency provided services to residents in the First, Second, and Third Supervisorial Districts during Fiscal Year (FY) 2008-09.

DPSS paid CHLA a fixed monthly fee for each participant or approximately \$732,000 during FY 2008-09.

Purpose/Methodology

The purpose of our review was to determine whether CHLA complied with the contract terms and appropriately accounted for and spent Cal-Learn funds in providing the services outlined in their County contract. We also evaluated the adequacy of the Agency's accounting records, internal controls, and compliance with federal, State and County guidelines. In addition, we interviewed a number of the Agency's staff and clients.

Results of Review

The program participants met the eligibility requirements for the Cal-Learn Program and CHLA met the contract's performance outcome measures and appropriately charged expenditures to the Cal-Learn Program. In addition, the Agency's staff possessed the required qualifications and CHLA's Cost Allocation Plan was prepared in compliance with the County contract and used to appropriately allocate shared program costs.

However, CHLA did not reconcile bank accounts, did not resolve reconciling (outstanding checks) items timely and did not ensure a reviewer approved the payroll bank reconciliation. Subsequent to our review, the Agency reconciled the bank accounts, reviewed and approved the reconciliations and resolve reconciling items.

In addition, the County contract does not include provisions requiring the Agency to return or reinvest unspent revenues. CHLA received \$643,168 from DPSS for the Cal-Learn Program during FY 2007-08. However, the Agency's expenditures totaled \$519,661, which is \$123,507 (\$643,168 - \$519,661) in unspent Program funds that the contract allowed the Agency to retain. CHLA also retained \$17,562 for FY 2008-09.

Details of our review, along with recommendations for corrective action, are attached.

Review of Report

We discussed our report with CHLA and DPSS in February 2010. CHLA's response (Attachment I) and DPSS' response (Attachment II) indicate agreement with our findings and recommendations. DPSS is following-up to ensure CHLA implements our recommendations. DPSS also indicated that they intend to work with County Counsel to amend the Cal-Learn Program contracts to include the unspent revenue provision effective September 1, 2010, the start of the second contract year. In addition, in January 2010, DPSS sent a letter to the California Department of Social Services (CDSS) requesting approval to include an unspent revenue provision in the affected contracts, as required by CDSS.

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We thank CHLA management for their cooperation and assistance during this review. Please call me if you have any questions or your staff may contact Don Chadwick at (213) 253-0301.

WLW:MMO:JET:DC:AA

Attachments

c: William T Fujioka, Chief Executive Officer
Philip L. Browning, Director, Department of Public Social Services
Marion Anderson, Board of Trustees Co-Chair, CHLA
John D. Pettker, Board of Trustees Co-Chair, CHLA
Richard Cordova, President and Chief Executive Officer, CHLA
Public Information Office
Audit Committee

**CAL-LEARN PROGRAM
CHILDRENS HOSPITAL LOS ANGELES
FISCAL YEAR 2008-09**

ELIGIBILITY

Objective

Determine whether Childrens Hospital Los Angeles (CHLA or Agency) provided services to individuals that met the eligibility requirements of the Cal-Learn Program.

Verification

We reviewed the case files for 10 (2%) of the 571 program participants that received services during January and February 2009.

Results

All 10 program participants met the eligibility requirements for the Cal-Learn Program services.

Recommendation

None.

PROGRAM SERVICES

Objective

Determine whether CHLA provided the services in accordance with the County contract and Cal-Learn guidelines. In addition, determine whether program participants received the billed services.

Verification

We reviewed the case file documentation for 10 program participants that received services during January and February 2009. We also interviewed four participants.

Results

CHLA provided the program services in accordance with the County contract.

Recommendation

None.

STAFFING QUALIFICATIONS

Objective

Determine whether CHLA staff possessed the qualifications required by the County contract.

Verification

We reviewed the personnel files of six CHLA employees.

Results

CHLA's staff possessed the qualifications required by the County contract.

Recommendation

None.

PERFORMANCE OUTCOMES

Objective

Determine whether CHLA met the planned performance outcomes as outlined in the County contract and reported the performance outcomes to the Department of Public Social Services (DPSS). The performance outcomes included maintaining a 70% orientation completion rate, a 60% school enrollment rate, a 50% report card submission rate and a 50% high school graduation rate.

Verification

We reviewed participant case files and the GAIN Employment Activity and Reporting System, an automated data management system that tracks each participant's progress in the program.

Results

CHLA met the performance outcome measures outlined in the County contract.

Recommendation

None.

CASH/REVENUE

Objective

Determine whether cash receipts and revenue were properly recorded in CHLA's financial records and deposited timely in their bank account. In addition, determine whether the Agency maintained adequate controls over cash.

Verification

We interviewed CHLA personnel and reviewed financial records including the Agency's general fund bank account reconciliation for October 2008 and their payroll bank account reconciliation for December 2008.

Results

CHLA properly recorded revenue. However, the payroll bank reconciliation was not reviewed and approved. In addition, at the time of our review, the Agency had not reconciled their payroll and general fund bank accounts for four and six months, respectively. As a result, CHLA did not resolve \$1 million in reconciling items on their October 2008 general fund account reconciliation.

Subsequent to our review, the Agency provided their January 2010 payroll and general fund bank account reconciliations. CHLA completed the reconciliations timely and the reconciliations were reviewed and approved. In addition, CHLA resolved the \$1 million in reconciling items.

Recommendations

CHLA management:

- 1. Ensure reconciliations are reviewed and approved by management.**
- 2. Prepare bank account reconciliations within 30 days of the bank statement date.**
- 3. Resolve reconciling items timely.**

UNSPENT REVENUE

California Department of Social Services (CDSS) policy requires DPSS to use a fixed fee method when contracting for services involving State funds unless DPSS obtains CDSS approval to use a different method. The Cal-Learn Program is funded by the State. In addition, DPSS compensates CHLA at a fixed monthly fee for each participant. However, CHLA's Cal-Learn contract with the County does not include provisions requiring the Agency to return or reinvest unspent Program funds. CHLA

received \$643,168 from DPSS for the Cal-Learn Program during Fiscal Year (FY) 2007-08. However, the Agency's expenditures totaled \$519,661, which resulted in \$123,507 (\$643,168 - \$519,661) in unspent Program funds that the contract allowed the Agency to retain. CHLA also retained \$17,562 for FY 2008-09.

On September 1, 2009, DPSS amended their Cal-Learn contracts to allow the County to disallow costs that are inappropriately charged to the program. However, the contracts were not amended to require agencies to reinvest unspent revenues. To ensure Cal-Learn funds are used for their intended purpose, DPSS needs to work with County Counsel to amend the Cal-Learn contracts to include provisions requiring agencies to return or reinvest unspent revenues. DPSS should also obtain any necessary CDSS approval to amend the contracts.

Recommendations

DPSS management:

4. **Work with County Counsel to amend the Cal-Learn contracts to include provisions requiring agencies to return or reinvest unspent revenues.**
5. **Obtain any necessary CDSS approval to amend contracts.**

EXPENDITURES/PROCUREMENT

Objective

Determine whether program-related expenditures were allowable under the County contract and properly documented.

Verification

We interviewed CHLA personnel and reviewed financial records and other documentation for one non-payroll expenditure totaling \$5,945 that the Agency charged during March 2009.

Results

CHLA's expenditure was allowable and properly documented.

Recommendation

None.

ADMINISTRATIVE CONTROLS/CONTRACT COMPLIANCE

Objective

Determine whether CHLA maintained sufficient internal controls over its business operations and if the Agency is in compliance with other program and administrative requirements.

Verification

We interviewed CHLA personnel, reviewed their policies and procedures manuals and conducted on-site visits.

Results

CHLA maintained sufficient internal controls over its business operations.

Recommendation

None.

FIXED ASSETS AND EQUIPMENT

Objective

Determine whether CHLA's fixed assets and equipment purchased with Cal-Learn funds were used for the Cal-Learn Program and were safeguarded.

We did not perform test work in this section, as CHLA did not use Cal-Learn funds to purchase fixed assets or equipment.

Recommendation

None.

PAYROLL AND PERSONNEL

Objective

Determine whether payroll expenditures were appropriately charged to the Cal-Learn Program. In addition, determine whether CHLA obtained background clearances and verified employment eligibility for the employees assigned to the Cal-Learn Program.

Verification

We traced the payroll expenditures for six employees totaling \$10,368 for March 2009 to the Agency's payroll records and time reports. We also interviewed staff and reviewed six personnel files for staff assigned to the Cal-Learn Program.

Results

CHLA properly charged payroll expenditures to the Cal-Learn Program and obtained background clearances for program staff.

Recommendation

None.

COST ALLOCATION PLAN

Objective

Determine whether CHLA's Cost Allocation Plan was prepared in compliance with the County contract and if the Agency used the Plan to appropriately allocate shared program costs.

Verification

We reviewed the Cost Allocation Plan and the only shared program expenditure the Agency incurred during March 2009.

Results

CHLA's Cost Allocation Plan was prepared in compliance with the County contract and the costs were appropriately allocated.

Recommendation

None.

PRIOR YEAR FOLLOW-UP

Objective

Determine the status of the recommendations reported in the Auditor-Controller's prior monitoring review.

Verification

We verified whether the outstanding recommendation from the FY 2004-05 monitoring report issued on September 21, 2005 was implemented.

Results

CHLA implemented the only recommendation contained in the prior monitoring report.

Recommendation

None.



Childrens Hospital Los Angeles

International Leader in Pediatrics

March 4, 2010

Wendy Watanabe, Auditor-Controller
County of Los Angeles
Department of Auditor-Controller
Countywide Contract Monitoring Division
350 South Figueroa Street, 8th Floor
Los Angeles, CA 90071

**RE: Childrens Hospital Los Angeles (CHLA)
Contract Review – A Department of Public Social Services Cal-Learn Program Provider
Fiscal Year: 2008 – 09**

Dear Ms. Watanabe:

This letter is intended to be a formal Agency Response to your draft report received by CHLA and dated February 25, 2010 and its attachment.

CASH/REVENUE

The Report on Cash/Revenue indicates three recommendations. These recommendations are that CHLA management:

1. Ensure bank account reconciliations are reviewed and approved by management.
2. Prepare bank account reconciliations within 30 days of the bank statement date.
3. Resolve reconciling items timely.

CHLA agrees with these recommendations and has already implemented them as noted below. We implemented these recommendations to ensure that we are reconciling bank accounts in the most timely and expeditious manner.

Bank Reconciliations are now performed monthly by the CHLA General Accounting Staff, for the Payroll, General Funds, TCW and other small bank accounts. Cash statements are available the first week of the month in an electronic format. The CHLA Senior Financial Analyst posts all cash entries and adjustments to the General Ledger by the 15th of the month and investigates any discrepancies that arise. The Accounting Manager reviews the reconciliations, ensures that all reconciling items are resolved and indicates such by signature. All bank reconciliations are completed within 30 days after the close of the General Ledger each month.

If you have any questions, please call me at (323) 361-8333.

Very truly yours,

Rus Blackford
Controller

County of Los Angeles
DEPARTMENT OF PUBLIC SOCIAL SERVICES

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Chief Deputy



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April 14, 2010

TO: Wendy L. Watanabe
Auditor-Controller

A handwritten signature in dark ink, appearing to read 'P. Browning', written over the 'FROM' line.

FROM: Philip L. Browning, Director

**SUBJECT: RESPONSE TO THE AUDITOR-CONTROLLER'S CONTRACT REVIEW
OF THE CHILDREN'S HOSPITAL LOS ANGELES, DEPARTMENT OF
PUBLIC SOCIAL SERVICES CAL-LEARN PROGRAM**

As requested by your office, this provides the Department of Public Social Services' (DPSS) response to the findings and recommendations identified in the draft audit report for Fiscal Year (FY) 2008-09 for Children's Hospital of Los Angeles. Our prior response to this report was sent on March 25, 2010, along with our response to the findings and recommendations identified in the draft audit report for FY 2008-09 for AltaMed Health Services Corporation. However, your staff requested that we provide separate responses to each report.

The Department agrees with the findings and recommendations identified in the draft audit report, and is committed to working with County Counsel and the California Department of Social Services (CDSS) to implement all listed recommendations. Attached is detailed information on our corrective actions.

On January 28, 2010, we requested CDSS' approval to include an unspent revenue provision in all of DPSS' fixed-fee contracts with private, non-profit agencies. If CDSS approves, we intend to amend the Cal-Learn Case Management contracts to include the unspent revenues provision effective September 1, 2010, the start of the second contract year.

Please let me know if you have any questions, or staff may contact Sheri Lewis, Division Chief, Research, Evaluation and Quality Assurance Division, at (562) 908-5879.

PLB:lb

Attachment

**AUDITOR CONTROLLER'S REVIEW
A DEPARTMENT OF PUBLIC SOCIAL SERVICES CAL-LEARN PROGRAM
CHILDREN'S HOSPITAL LOS ANGELES (CHLA) CONTRACT REVIEW
FISCAL YEAR 2008-2009
RECOMMENDATIONS AND DPSS RESPONSES**

CASH REVENUE

CHLA MANAGEMENT:

RECOMMENDATION 1:

Ensure reconciliations are reviewed and approved by management.

RECOMMENDATION 2:

Prepare bank account reconciliations within 30 days of the bank statement date.

RECOMMENDATION 3:

Resolve reconciling items timely.

RESPONSE TO 1-3: DPSS AGREES

On March 15, 2010, DPSS asked the contractor to provide a confirmation letter that all necessary corrective actions are taken to prevent these types of errors happening in the future.

TARGET DATE 1-3:

Target date for the contractor to provide the confirmation letter is 04/15/2010.

UNSPENT REVENUE

DPSS MANAGEMENT:

RECOMMENDATION 4:

Work with County Counsel to amend the Cal-Learn contracts to include provisions requiring agencies to return or reinvest unspent revenues.

RECOMMENDATION 5:

Obtain CDSS approval to amend contracts, if necessary.

RESPONSE to 4-5: DPSS AGREES

DPSS will work with County Counsel to implement these recommendations. Also, on January 28, 2010, DPSS sent a letter to CDSS requesting approval to include an unspent revenues provision in all of the Department's fixed-fee contracts with private, non-profit agencies. CDSS regulation 23-604.3.374 requires the firm-fixed price method of reimbursement for agreements with non-public/non-governmental agencies.

TARGET DATE 4-5:

If approval is received, DPSS intends to amend the Cal-Learn Case Management contracts to include the unspent revenues provision effective September 1, 2010, the start of the second contract year.

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ADMINISTRATIVE CONTROLS/CONTRACT COMPLIANCE

RECOMMENDATION 6:

CHLA management ensure all electronic timecards are reviewed and approved by employees' supervisors.

RESPONSE: DPSS AGREES

On March 15, 2010, DPSS asked the contractor to provide a confirmation letter that all electronic timecards are reviewed and approved by employees' supervisors.

TARGET DATE:

Target date for the contractor to provide the confirmation letter is 04/15/2010.